

May 18, 2005

Mr. Joseph DiSalvo
Treasurer
Dover Art League
21 West Loockerman Street
Dover, De 19904

Dear Mr. DiSalvo:

The Office of Auditor of Accounts has completed its review of the Dover Art League (DAL). The following paragraphs detail the results of our review.

BACKGROUND

On March 18, 2005, the Office of Auditor of Accounts received an anonymous "Hotline" complaint relative to the accounting of funds by the Dover Art League. On March 29, 2005, representatives from the Office of Auditor of Accounts met with Mr. Joseph DiSalvo, Treasurer, Dover Art League and Dover Art League board members Ms. Kauriee Wood and Ms. Xan Sales to discuss the scope of the examination.

SCOPE AND METHODOLOGY

Our examination included obtaining and reviewing financial records for the Dover Art League for the period October 1, 2003 through September 30, 2004. Interviews were held with the former President, Director, and Treasurer, Dover Art League.

REVIEW RESULTS

In our initial meeting on March 29, 2005 we were told that the financial records for DAL were not well organized. Our review disclosed that financial records were missing documentation supporting payments and receipts. For instance we found that 12 of 36 checks for payroll and personal reimbursements to a former director did not contain appropriate support documentation.

The Dover Art League, Inc., contracted the Nonprofit Finance Fund (NPF) to prepare a Nonprofit Business Analysis. In their report of January 2005, the Nonprofit Finance Fund stated the following:

- "The League's operating history shows not only volatile operating results from 1999 to 2004, but also deficits each year out of the six analyzed."
- "On average contributed revenue comprised 36% of total revenue."
- "The grant category, which typically includes grants from DDOA, has averaged 48% of total contributed income."

- “Total expenses dipped a slight 4% in 2003 and then increased 11% in 2004.”
- “As a percentage of total expenses, personnel expense increased from a low of 28% in 1999 to a high of 40% in 2003.”

Our review of the League’s financial reports for the years 1999 through 2004 also showed that the DAL operated in a deficit financial position. This was the result of decreased contributions, reduced class size and increased personnel costs. We did not find indications of misappropriation of DAL funds.

We asked DAL management to provide us with their written financial policies and procedures. The DAL did not have a comprehensive financial policies and procedures operations manual. A well-designed system of controls must include written policies and procedures to ensure that each control objective is met. Failure to meet control objectives constitutes a weakness in the League’s internal control system. Written financial operating policies and procedures will establish clear lines of authority and responsibility and will enhance internal control within the organization. Financial operating policies and procedures were not established to address the purchasing and expenditure process and the flow of these transactions from initiation to update of the League’s computerized financial records.

In addition, written policies and procedures had not been established to address segregation of duties, safeguarding of assets and preparation of internal financial reports for management oversight and monitoring of financial operations. DAL officials told us that checks required two signers. We found many checks written by DAL contained only one signature.

Our examination also identified that the DAL had outstanding Internal Revenue Service (IRS) tax penalties for years 2000, 2001, 2002 and 2003. During our visit the DAL received an approval from the IRS abating the penalty for tax period ending September 30, 2001. However, the DAL has liabilities for tax penalties for the remaining tax periods.

CONCLUSION

Based on the results of our review, we conclude that DAL funds were not misappropriated rather the deficit experienced by the DAL is the result of poor management and internal controls over assets.

We suggest that the Dover Art League:

1. Develop written policies and procedures for the financial operation.
2. Comply with Internal Revenue Tax rules and regulations.

An exit conference was held on May 17, 2005, to discuss the findings and recommendations contained in the report. Representing the Dover Art League were Ms. Phyllis Levitt, President, Mr. Joseph DiSalvo, Treasurer, and Board members Ms. Kauriee Wood and Ms. Xan Sales. Representing the Office of Auditor of Accounts was Mr. Edward L. Watson, Administrative Auditor.

Should you have any questions please contact Mr. Edward L. Watson, Administrative Auditor, at 739-4241 extension 117.

Sincerely yours,

OFFICE OF AUDITOR OF ACCOUNTS

R. Thomas Wagner, Jr., CGFM, CFE
Auditor of Accounts

ELW:GCE
Case Number: 2005-015

Cc: Ms. Laura Scanlan, Director, Delaware Division of the Arts